

Core Universal Services

- **All Interstate providers assessed on the basis of Interstate retail revenues less universal service revenues (SLC)**
- **Carriers must meet certain criteria to be designated as “eligible” for support**
 - » **offer universal service on a standalone basis throughout a defined serving area**
 - » **advertise the availability of service throughout serving area using general distribution media**
 - » **subject to service provisioning rules**
 - » **the carrier may use its own facilities or a combination of its own facilities and resale**
- **Support to be provided on a “per line served” basis to any eligible carrier**

Core Universal Services

- BellSouth proposes that support always go to the facilities based carrier when resale of local exchange service is involved
- State Commissions to determine serving areas
 - » Costs vary between rural and urban areas
 - » Serving areas should reflect cost differences
 - » BellSouth recommends wire centers for determining universal service support

Core Universal Services

- Size of fund should be based on difference between actual embedded costs and revenues from universal service
- Portability of subsidy ensures efficient provision of service
- No proxy model has yet been developed which adequately replicates actual costs

Size of Federal Universal Service Fund

- Core federal universal service fund would equal about \$7.7 billion
- Core fund size could be decreased by up to \$3 billion through SLC increases
- Education fund would average \$1.4 billion per year over the first ten years (based on partial classroom model and telecommunications services only)

Consider SLC Increases to Minimize Fund Size

- Interstate SLC has been \$3.50 since 1989
- When SLC was implemented (late '80s), penetration levels increased
- Any increase in the SLC would be offset by a decrease in access charges
- IXC's should have obligation to flow through access charge reductions
- A modest gradual SLC increase would not affect affordability
- LifeLine assistance should be increased to match any increase in the SLC, thereby reducing overall expenditures for the low-income
- Rate rebalancing is part of the transition to a competitive environment

Education - The Kickstart Approach

- **T-1 connection to each school**
- **Half the classrooms connected with networked computers (1 computer per 5 students)**
- **McKinsey & Co. Estimate:**
 - » **Average annual cost for telecommunications services:**
\$12,120/school



Education Fund

- **BellSouth recommends a flexible discount approach based on universal service funds determined by the KickStart Initiative**
 - » **Overall fund size based on one of the KickStart models (e.g., partial Classroom model)**
 - » **Maximum flexibility for schools**
 - » **Allocated fund dollars through a flexible discount provides appropriate flexibility for schools to determine their individual needs and match funds to meet those unique needs**
 - **In effect, schools determine the level of the discount for each service**

Education Fund

- Provided to
 - » Elementary and secondary schools (K-12)
 - » Libraries
- Defined services proposed by BellSouth
 - » Connectivity to voice grade exchange service
 - » Connectivity for transport up to DS1 level

Education Fund

- **Overall approach**
 - » **Credit arrangement (Flexible Discount)**
 - **Establish fund size based on KickStart model**
 - **Allocate fund dollars to states (e.g.- based on per pupil calculations)**
 - **Allocation can be modified to reflect income level or population density**
 - **State administers for schools within state**
 - **Can aggregate funds on school district or higher basis to further coordinate purchases (more market power)**
 - **Further ensures equity among schools within state**

Education Fund

- **Schools may use fund dollars for any available regulated service included in definition**
 - **Inside wiring must be addressed outside the universal service fund**
 - **Services purchased at tariff (or market) rates**
- **Bona Fide service request process**
 - » **Minimizes uneconomic or untimely requests**
 - » **Allows state to coordinate requests as part of an overall education plan**

Education Fund

- **Funding**
 - » **Explicit funding required**
 - » **Consider surcharge on customer bills for all providers of Interstate service**
 - » **Federal universal service support mechanism may cover Intrastate discounts**
- **Library Fund similar to Education**
 - » **Size determined by KickStart type calculation**
 - » **Allocate dollars on per library basis with variations to address rural, urban or low income distributions**
 - » **Flexible discount methodology provides customer flexibility to determine needs and level of discount for each service**

Health Care

- Services to be provided in rural areas at rates reasonably comparable to urban rates
- Any difference to be credited toward contribution to universal service fund
- Recommend Transport of up to DS1 speeds as definition

Advanced Services

- Basic telephone service line and modem allows access to the Internet and Advanced Services
- Deployment of Advanced services should not be mandated. The marketplace should be allowed to provide them in a timely and efficient manner
- Section 706 Notice of Inquiry
 - » FCC must initiate within 2 1/2 years from enactment of 1996 Act (by August 8, 1998)
 - » NOI must be completed within 6 months

Key Recommendations

- Core funding: Eliminate Interstate CCL and RIC, USF, DEM weighting and LTS through combination of SLC rebalancing and new federal universal service fund
- Education and libraries funding: Make decision that Kickstart approach (flexible discount and fixed fund size) is the way to proceed; work out details in further proceeding
- Deal with advanced services in 706 proceeding